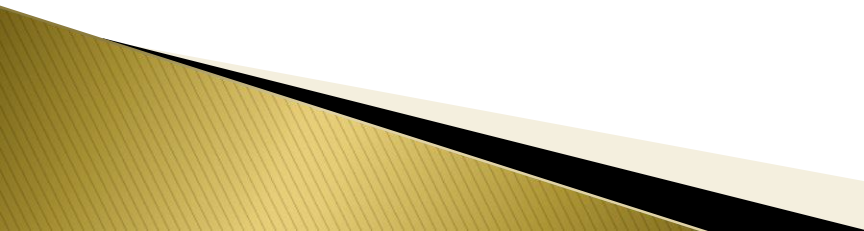


Tuition and Textbook Tax Credit

Bob Rogers
Tax Research and Program Analysis Section
Iowa Department of Revenue

Tuition and Textbook Credit (TTC) Details

- ▶ Twenty-five percent of first \$1,000 of eligible education expenses per dependent.
 - ▶ Dependent must be in grades kindergarten through 12th grade at an accredited Iowa school.
 - ▶ Credit is nonrefundable – taxpayer must have a tax liability in order to claim credit.
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History of the Tuition and Textbook Tax Credit

Implemented in 1987

- ▶ Itemizers could claim deduction of up to \$1,000 of eligible expenses per dependent.
- ▶ Standard deduction filers could claim credit of five percent of first \$1,000 of eligible expenses.
- ▶ Itemized deduction and credit were limited to families with federal adjusted gross income (AGI) of \$45,000 or less.
- ▶ Eligible expenses were limited to tuition and fees for academic classes; not extracurricular activities.

1992

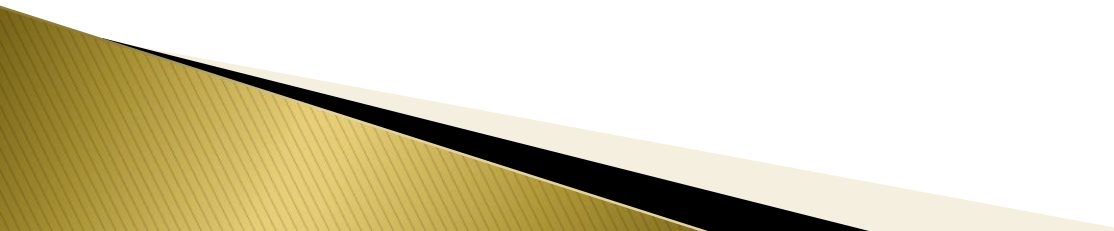
- ▶ Iowa TTC challenged in U.S. District Court in case of *Luthens v. Bair*. Court ruled that Iowa TTC did not violate U.S. Constitution.

History of the Tuition and Textbook Tax Credit (continued)

1996

- ▶ Credit percentage increased from 5 to 10 percent.
- ▶ Itemized deduction discontinued.
- ▶ Credit no longer limited to standard deduction filers.
- ▶ \$45,000 income limitation eliminated.

1998

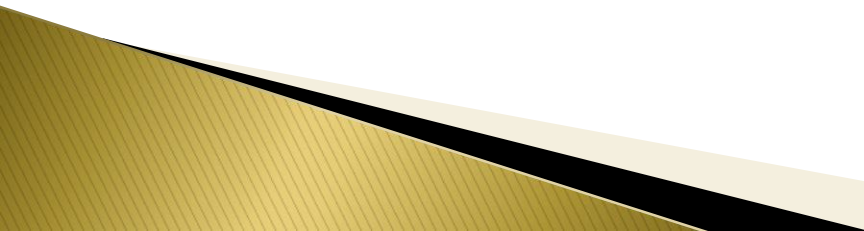
- ▶ Credit percentage increased from 10 percent to 25 percent.
 - ▶ Definition of eligible expenses expanded to include certain fees for extracurricular activities.
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Tax Programs for Education Expenses by State


State	Type of Assistance	Refundable	General Provisions
Arizona	Credit	No	100% of qualifying expenses. Maximum credit of \$200 (single, head of household) \$400 (married taxpayers).
Illinois	Credit	No	25% of qualifying expenses above \$250. Maximum credit of \$500 per household.
Indiana	Adjustment to Income	N.A.	\$1,000 deduction per dependent who is enrolled in a private school or home schooled in grades K-12.
Iowa	Credit	No	25% on the first \$1,000 of qualifying expenses per dependent.
Louisiana	Adjustment to Income	N.A.	100% of expenses which pertain to nonpublic schools or public laboratory schools operated by a college or university; 50% of expenses otherwise. Maximum adjustment of \$5,000 per student.
	Credit	No	\$25 for each dependent enrolled in grades K-12.
Minnesota	Adjustment to Income	N.A.	100% of qualifying elementary expenses up to \$1,625 (up to \$2,500 for secondary expenses) per child.
	Credit	Yes	75% of qualifying expenses. Maximum credit of \$1,000 per student or \$2,000 per family. For families with one or two children, the credit is phased out beginning at \$33,500 and completely phased-out at \$37,500. The phase-out is extended by \$2,000 for each additional dependent.

N.A. = Not Applicable

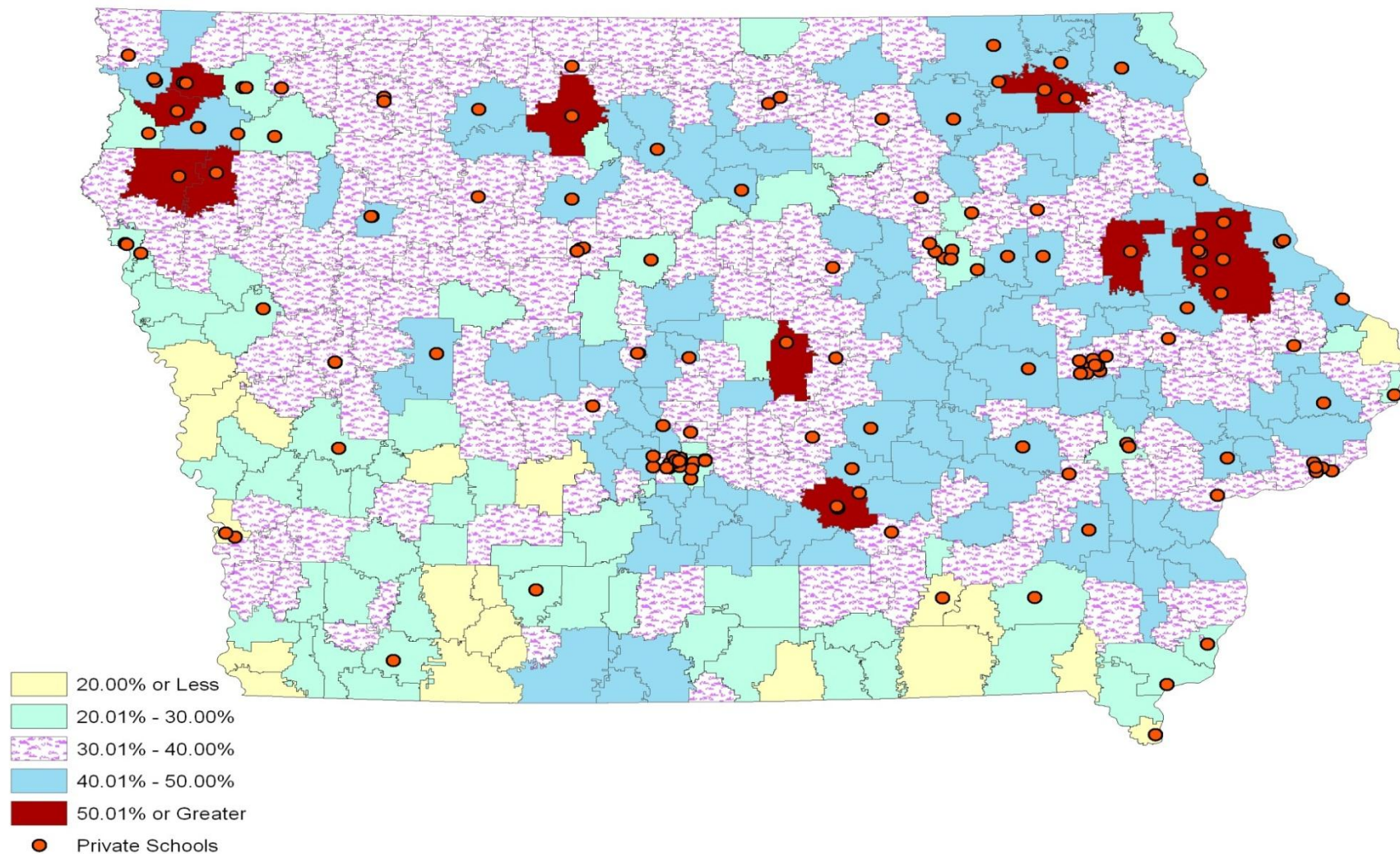
Iowa TTC Claimant Characteristics Tax Year 2010

- ▶ There were 121,393 households that claimed the TTC in tax year 2010.
 - ▶ These households claimed \$15.3 million for 233,986 eligible dependents.
 - ▶ The average credit claim was \$126.
 - ▶ 9.4% of all claimants claimed the maximum credit possible, which is \$250 times the number of eligible dependents.
 - ▶ Iowa residents claimed \$15.2 million of the total credits.
 - ▶ Married taxpayers comprised 81.1 percent of all claimants.
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Utilization of the TTC Tax Year 2010

- ▶ Utilization is defined as the number of households claiming the TTC divided by the number of households with eligible dependents (ages 5 through 21).
 - ▶ Statewide, the utilization rate was 33.4 percent.
 - ▶ The utilization rate ranged from 8.1 percent in the Corning School District to 59.4 percent in the Western Dubuque School District.
 - ▶ Over 50 percent of households with eligible dependents claimed the TTC in 10 school districts, while less than 20 percent of households with eligible dependents claimed the TTC in 20 school districts.
 - ▶ School districts with over 50 percent utilization had at least one private school within their boundaries.
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Utilization by School District Tax Year 2010




TTC claims by Adjusted Gross Income, Tax Year 2010

Iowa Adjusted Gross Income	Number of Households	Distribution of Households	Amount Claimed	Distribution of Claims	Average Claim	Utilization Rate
\$ 20,000 or less	1,874	1.54%	\$136,576	0.89%	\$73	3.32%
\$ 20,000 - \$ 49,999	33,321	27.45%	\$3,199,742	20.91%	\$96	30.26%
\$ 50,000 - \$ 99,999	56,474	46.52%	\$6,724,317	43.94%	\$119	44.95%
\$100,000 and over	29,724	24.49%	\$5,241,150	34.25%	\$176	41.57%
Total	121,393	100.00%	\$15,301,785	100.00%	\$126	33.38%

Source: IDR 2010 individual income tax returns

Claims for TTC and Other “Family” Credits

Family credits are tax credits that target families with children. Besides the TTC, they include:

- Earned Income Tax Credit – Seven percent of Federal Earned Income Tax Credit.
 - Child and Dependent Care Tax Credit – 75 percent to 30 percent of the federal Child and Dependent Care Tax Credit (based on income) for qualifying child care expenses.
 - Early Childhood Development Tax Credit – 25 percent of qualified preschool expenses for dependents age three to five.
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Distribution of Family Tax Credit Claimants by AGI

Iowa Adjusted Gross Income	Family Tax Credits			
	Tuition and Textbook	Earned Income	Child and Dependent Care	Early Childhood Development
\$0 - \$19,999	1.54%	60.04%	29.17%	33.32%
\$20,000 - \$49,999	27.45%	39.96%	70.83%	66.68%
\$50,000 - \$99,999	46.52%	0.00%	0.00%	0.00%
\$100,000 and over	24.49%	0.00%	0.00%	0.00%

Two reasons why TTC claimants are concentrated at middle and upper income levels and other family credit claimants are concentrated at lower income levels:

- ▶ TTC does not have an income limitation where other three family credits are limited to households below certain income levels.
 - Child and Development Tax Credit and Early Childhood Development Tax Credit are limited to filers with AGI below \$45,000.
 - The maximum household income at which an Earned Income Tax Credit may be claimed is \$48,362 for tax year 2010.
- ▶ TTC is nonrefundable (can only be applied to tax liability) where as other three family credits are refundable (any credit in excess of tax liability is refunded).

Ranking TTC Claims by School District

- ▶ The three school districts with the largest enrollments (Des Moines, Cedar Rapids, Davenport) had the largest number of claimants and claims.
- ▶ When other measures of TTC claims are ranked, smaller school districts rank near the top:
 - The utilization rate ranged from 8.1 percent for Corning (enrollment=478) to 59.4 percent for Western Dubuque (enrollment=4,515).
 - The average credit ranged from \$41 for Lenox (enrollment=421) to \$338 for Rock Valley (enrollment=1,173).
 - Credit claims per pupil ranged from \$3 for Lenox (enrollment=421) to \$114 for Sioux Center (enrollment=1,428).

Taxpayers with Tax Liability Reduced to Zero by the TTC, Tax Year 2010

Table 13. Taxpayers with Tax Liability Reduced to Zero by the Tuition and Textbook Tax Credit, Tax Year 2010

Iowa Adjusted Gross Income	Number of Households	Distribution of Households	Pre-Credit Tax Liability	Amount of Credits Reported	Unused Credits
\$20,000 or less	401	46.41%	\$ 31,276	\$ 68,694	\$37,418
\$20,000 - \$49,999	399	46.18%	\$ 123,397	\$ 183,292	\$59,895
\$50,000 - \$69,999	36	4.17%	\$ 10,657	\$ 17,015	\$6,358
\$70,000 and over	28	3.24%	\$ 9,116	\$ 15,756	\$6,640
Total	864	100.00%	\$ 174,446	\$ 284,757	\$110,311

Source: IDR 2010 individual income tax returns

“Pre-credit tax liability” equals total tax minus the total exemption credits. This definition is consistent with the order in which credits are to be claimed (Iowa Administrative Rules Chapter 701-42.44).

Eligible Households Who Did Not Claim a TTC

Iowa Adjusted Gross Income	Households with Zero Pre-Credit Tax Liability		Households with Positive Pre-Credit Tax Liability	
	Number of Households	Share of Total	Number of Households	Share of Total
\$ 20,000 or less	34,631	14.43%	16,627	6.93%
\$ 20,000 - \$ 49,999	1,595	0.66%	75,327	31.38%
\$ 50,000 - \$ 99,999	520	0.22%	69,247	28.85%
\$100,000 and over	683	0.28%	41,424	17.26%
Total	37,429	15.59%	202,625	84.41%

Source: IDR 2010 individual income tax returns

Assuming that all 202,625 taxpayers with a positive pre-tax liability claim the credit, an additional \$24.3 million is estimated to be claimed, or a total of \$39.6 million in claims.

Explanation for Underutilization of the TTC

Two reasons for this are:

- ▶ Taxpayers possibly did not have any kindergarten through 12th grade expenses. Iowa law prohibits schools from charging fees to families qualifying for free lunches.
- ▶ Taxpayers possibly lacked knowledge about the program.

Analysis of Alternative TTC Tax Proposals

- ▶ Various changes to the TTC were estimated using tax year 2010 returns. The results are summarized below in terms of change to State revenue that would have occurred in 2010:
 - Doubling the TTC percentage to 50 percent would have reduced revenues by -\$14.6 million
 - Reinstating the \$45,000 household income limitation would have increased revenues by \$13.3 million.
 - Eliminating the TTC and raising the dependent credit from \$40 to \$60 would roughly be revenue neutral.

Analysis of Alternative TTC Tax Proposals (Continued)

- ▶ Eliminating the Sales Tax Holiday (estimated cost of \$4.4 million for 2010) and raising the TTC to 32 percent would roughly be revenue neutral assuming CURRENT LEVELS of claimants.
 - The rationale for this proposal is that the Sales Tax Holiday allows all individuals to receive benefits while the TTC is better targeted to parents with school children.
 - This proposal would increase awareness of the TTC and result in more TTC claimants under current law.
 - The actual percentage increase to achieve revenue neutrality would likely be lower because it is expected there would be an increase in claims.
 - Recall that \$24.3 million in expected new claims would be anticipated under the 25 percent credit with 100 percent utilization.

Questions?